

OTTUMWA COMMUNITY SCHOOL DISTRICT
OTTUMWA, IOWA

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2006

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OTTUMWA COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
(Before September 2005 Election)		
Mark Zeller	President	2005
Carol Mitchell	Vice President	2006
Kenneth Crosser	Board Member	2005
R. Payson Moreland	Board Member	2006
Bob Warren	Board Member	2007
Pat Curran	Board Member	2007
Cindy Kurtz-Hopkins	Board Member	2007
<u>Board of Education</u>		
(After September 2005 Election)		
Mark Zeller	President	2008
Carol Mitchell	Vice President	2006
R. Payson Moreland	Board Member	2006
Pat Curran	Board Member	2007
Bob Warren	Board Member	2007
Cindy Kurtz-Hopkins	Board Member	2007
Ron Oswalt	Board Member	2008
<u>School Officials</u>		
Dr. Thomas Rubel	Superintendent	Oct. 2006
John Donner	Business Manager District Secretary/Treasurer	2006
Richard Gaumer	Attorney	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Ottumwa Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Ottumwa Community School District, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Ottumwa Community School District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 27, 2006 on our consideration of Ottumwa Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 7 through 17 and 50 through 51 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Ottumwa Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The financial statements for the year ended June 30, 2003 (none of which are presented herein) were audited by other auditors who expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 8, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Oskaloosa, Iowa
September 27, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Ottumwa Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Financial Highlights

- The District's financial status continued to improve during the 2006 fiscal year with net assets increasing by 18.5% to \$11.5 million.
- The District's General Fund unreserved, undesignated fund balance increased to \$1,586,938, or a \$281,799 increase from 2005. In 2000 the District had a negative balance of \$2,053,568 and a solvency ratio of negative 7.1%. In 2006 the unreserved, undesignated balance is \$1,586,938 or a \$3,640,506 improvement with a positive solvency ratio of 4.5%.
- The District just completed the second year of collecting a one percent sales tax with funds to be used for school infrastructure and property tax reduction. The District used the funds to eliminate the PPEL and Debt Service levies for the 2005-06 fiscal year. The June 30th balance of these funds is \$1.6 million which will be used to fund infrastructure needs.
- The District's self-funded insurance fund ended the year with net assets of \$285,637, after accounting for \$325,000 of incurred but not reported claims. This is a substantial improvement from the previous year's balance of \$33,542.

Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.
- The statements for *proprietary funds* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- The statements for *fiduciary funds* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

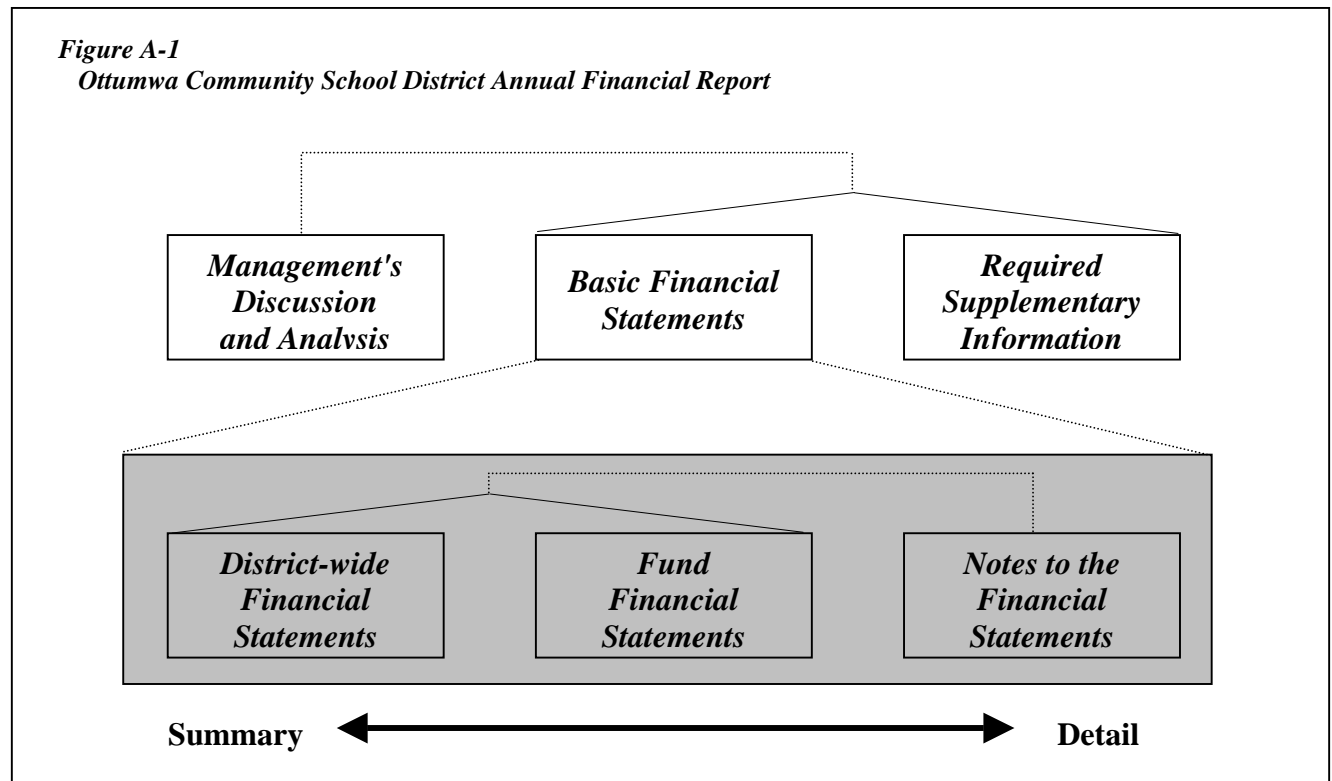


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2

Major Features of the District-Wide and Fund Financial Statements

	District-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

District-wide Statements

The District-wide statements report information about the District as a whole, using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two District-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the District-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's School Nutrition Program, Student Construction and Child Care Programs are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements.

- The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.
- *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements.
- The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has three enterprise funds, the School Nutrition Fund Student Construction and Prime Time Youth Care.
- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency funds.
- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-3 Condensed Statement of Net assets (in thousands of dollars)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total School District</u>		<u>Total Change</u>
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2005-06</u>
Current and other assets	17,912	16,871	774	649	18,686	17,520	6.7%
Capital assets	<u>12,693</u>	<u>12,883</u>	<u>131</u>	<u>86</u>	<u>12,824</u>	<u>12,969</u>	-1.1%
Total Assets	30,605	29,754	905	735	31,510	30,489	3.3%
Long-term obligations	7,242	7,793			7,242	7,793	-7.1%
Other liabilities	<u>12,653</u>	<u>12,867</u>	<u>136</u>	<u>144</u>	<u>12,789</u>	<u>13,011</u>	-1.7%
Total Liabilities	19,895	20,660	136	144	20,031	20,804	-3.7%
Net assets							
Invested in capital assets, net of debt	5,963	5,604	131	86	6,094	5,690	7.1%
Restricted	3,033	2,056			3,033	2,056	47.5%
Unrestricted	<u>1,713</u>	<u>1,434</u>	<u>638</u>	<u>504</u>	<u>2,351</u>	<u>1,938</u>	21.3%
Total Net Assets	10,709	9,094	770	590	11,479	9,684	18.5%

The District's combined net assets increased by \$1,793,773 or 18.5% during the fiscal year. Governmental activities total net assets increased by \$1,614,669 with Business type activities increasing by \$179,104. Total assets increased by \$1,021,138 while total liabilities declined by \$772,635 during the year due mainly to the reduction of Long Term Debt. Unrestricted net assets increased by \$804,702 to \$2,350,779.

Statement of Activities and changes to net assets.
Figure A-4

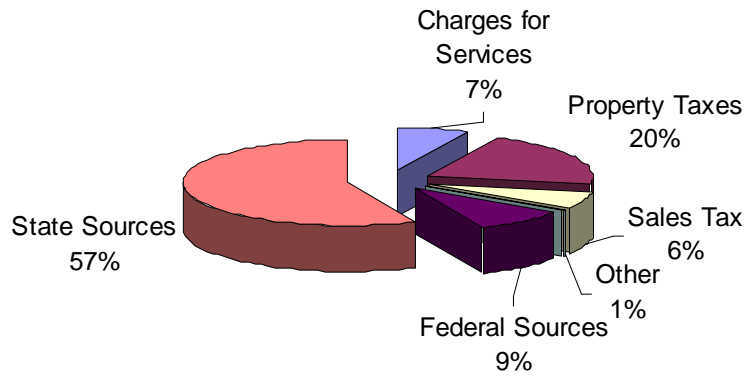
Figure A-4 Statement of Activities

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total School District</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues						
Program Revenues						
Charges for services	1,759,742	1,955,409	1,139,130	925,505	2,898,872	2,880,914
Operating grants and contributions	5,706,197	5,428,854	1,119,325	1,024,491	6,825,522	6,453,345
Capital grants and contributions	68,584	604,277			68,584	604,277
General Revenues						
Property and other taxes	8,503,757	8,156,575			8,503,757	8,156,575
Local option sales tax	2,670,924	2,811,349			2,670,924	2,811,349
State foundation aid	20,561,779	19,913,006			20,561,779	19,193,006
Other	366,251	202,710	12,721	5,655	378,972	202,710
Total Revenues	39,637,234	39,072,190	2,271,176	1,955,651	41,908,410	41,027,841
Expenditures						
Instruction	24,223,988	23,876,887			24,223,988	23,876,887
Pupil and instructional services	2,889,937	2,740,468			2,889,937	2,740,468
Administrative and business services	3,380,097	3,070,089			3,380,097	3,070,089
Maintenance and operations	3,446,864	3,248,626			3,446,864	3,248,626
Transportation	1,152,823	1,036,927			1,152,823	1,036,927
Other	2,874,640	2,900,187			2,874,640	2,900,187
Non Instructional	54,216	18,886	2,092,072	1,915,196	2,146,288	1,934,082
Total Expenditures	38,022,565	35,891,964	2,092,072	1,915,196	40,114,637	38,807,160
Change in net assets	1,614,669	2,180,216	179,104	40,455	1,793,773	2,220,671
Net assets beginning of year	9,904,370	6,914,154	590,441	549,986	9,684,811	7,464,140
Net assets end of year	10,709,039	9,094,370	769,545	590,441	11,478,584	9,648,811

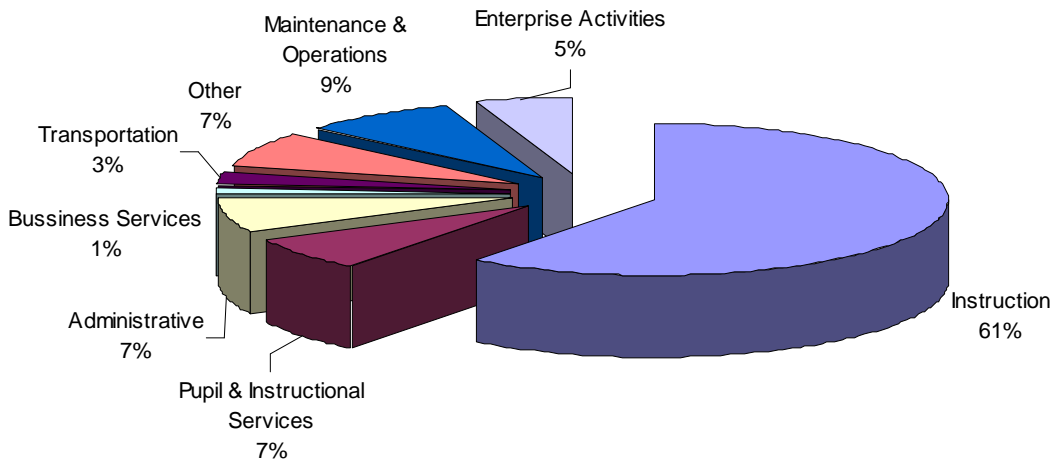
District revenues were \$41.9 million, up \$880,000 or 2.2% from the previous year. Expenditures grew by \$1.3 million to \$40.1 million, a 3.4% increase with revenue exceeding expenditures by \$1.8 million.

State sources provided 59% of the funding for governmental programs with local property taxes amounting to \$8.5 million, or 21% and federal funds were 7%. Governmental activities accounted for 95% of total district expenditures. Within the governmental funds the largest expenditures were for instructional programs (63.7%), maintenance and operations (9.1%) and administrative and business services (8.9%).

Sources of District Revenue for Fiscal 2006



Expenditures for Fiscal 2006



Financial Analysis of the District's Funds

As previously noted, the Ottumwa Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Fund Highlights

- The District's General Fund unreserved, undesignated fund balance increased to \$1,586,939 or a \$281,800 increase from 2005. In 2000 the District had a negative balance of \$2,053,568 and a negative solvency ratio of -7.1%. Fiscal year 2006 ended with an unreserved, undesignated balance of \$1,586,939, a \$3,640,507 improvement from 2000 and has a positive 4.5% solvency ratio. In 1999 the District set a goal to have a positive solvency ratio of at least 3% by 2007 and has exceeded that goal.
- Of the other funds that make up governmental funds, the following showed increases in fund balance from the previous year: Debt Service \$907,038, an increase of \$14,714 and Capital Projects \$1,598,734 an increase of \$896,331. The District's use of Local Option Sales Tax funds to make debt payments in lieu of property tax necessitated the large reserve accumulation in 2005-06. The Capital Project reserves will be used for 2006-2008 projects. Student Activity ended the year with a balance of \$553,130, an increase of \$32,178 and Management Fund \$14,484, a decrease of \$3,208.
- Capital projects that the District either completed or started were: new metal roof at Wilson Elementary School, tuck pointing-brick replacement at the High School and stair replacement High School .

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$463,481 on June 30, 2005 to \$560,646 on June 30th 2006, representing an increase of \$97,165. Revenue increased by 7% with expenditures increasing 3%.

The District's before-and-after School Child Care Program showed an operating profit of \$19,932 for the fiscal year leaving a positive balance of \$20,297 or 12% of annual operating expenses.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget, following required public notice and hearing for all funds, except its private-purpose trust and agency funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared in accordance with generally accepted accounting principles. Over the course of the year, the District amended its annual operating budget one time to reflect additional revenue and expenditures associated with federal grants and a building improvement project. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report.

Legal Budgetary Highlights

- The District's total actual receipts were approximately \$244,000 less than the total budgeted receipts, a variance of less than .6%. Total expenditures were approximately \$1,750,000 less than budgeted, a variance of 4.1%. This variance in expenditures was due mainly to construction projects not completed by year end and grants carried over to the next fiscal year.
- The District's certified budget was exceeded in the support services functional areas by \$74,000 or .2%. This function area exceeded budget due to the change in classification of a number of expenditure functions per the newly adopted federal accounting handbook.

Capital Asset and Debt Administration

Capital Assets

Capital Assets 6/30/2006

	Governmental Activities		Business-Type		District Total
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Land	320,904	320,904			320,904
Construction in progress	149,447	379,042			149,447
Buildings	27,177,279	26,593,580			27,177,279
Improvements non Bldgs	359,219	62,730			359,219
Furniture and Equipment	<u>708,885</u>	<u>658,678</u>	<u>435,544</u>	<u>370,306</u>	<u>435,544</u>
Accumulated Depreciation	<u>16,022,520</u>	<u>15,068,613</u>	<u>304,185</u>	<u>284,001</u>	<u>16,326,705</u>
Capital Assets net	12,693,214	12,883,591	131,359	86,305	12,824,573

Of the \$28 million cost of the District's depreciable capital assets (buildings and equipment) \$16 million has been depreciated or 58% of the original value.

Long-Term Debt

	Outstanding <u>2005</u>	<u>Retired</u>	Outstanding <u>2006</u>
General Obligation Bonds 1995	550,000	550,000	0
General Obligation Bonds 1998	6,730,000		6,730,000
Refinancing of 1995 bonds			
Total	<u>7,280,000</u>	<u>550,000</u>	<u>6,730,000</u>

The District's other long-term liabilities consist of \$325,199 in early retirement incentives and \$187,201 in compensated absences liabilities.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District's primary source of revenue is the State of Iowa's school aid formula, under which the state sets a state wide per pupil funding amount. State allowable growth for 2006-07 and 2007-08 is set at 4%.

- The other key element of the state foundation formula is certified enrollment, for 2006 the District will experience a 1.9% decline in enrollment. Previous years enrollment was a .4% decline in 2001, 1.9% increase in 2002, 1.4% decline in 2003, no change in 2004 and a decline of .6% in 2005.
- The District is planning two large capital projects to begin in 2006-07, a five room addition to Eisenhower Elementary School and a major addition and remodeling project at Evans Middle School. The addition at Evans Middle School will allow added 6th grade to this site and is expected to be completed in 2009.
- Equipment purchases of \$150,000 to replace food service tables and hot carts are planned for the 2006-07 school year from the Nutrition Funds. The Evans Middle School project includes a new cafeteria and production kitchen for the 2008-09 school year.
- Salaries and benefits constitute 79% of the District's general fund expenditures, contract settlements for 2006-07 averaged about 4.1%. Two of the five union contracts (teachers and Building Secretaries) will be up for negotiation in June 2007. A multi-year agreement calls for the following increases in 2007-08: Custodial 3%, food service workers 3% and teacher associates 2%.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact John Donner, Business Manager, Ottumwa Community School District, 422 McCarroll Drive, Ottumwa, Iowa, 52501.

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Basic Financial Statements

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments	\$ 9,374,503	\$ 669,026	\$ 10,043,529
Receivables:			
Property tax:			
Current year	212,028	-	212,028
Succeeding year	7,125,000	-	7,125,000
Accounts	62,070	-	62,070
Accrued interest	27,540	-	27,540
Due from other governments	1,029,945	-	1,029,945
Inventories	80,566	104,775	185,341
Capital assets, net of accumulated depreciation (note 5)	12,693,214	131,359	12,824,573
Total assets	30,604,866	905,160	31,510,026
Liabilities			
Accounts payable	1,123,506	14,790	1,138,296
Salaries and benefits payable	3,890,827	120,825	4,011,652
Incurred but not reported claims	325,000	-	325,000
Accrued interest payable	25,670	-	25,670
Deferred revenue:			
Succeeding year property tax	7,125,000	-	7,125,000
Other	163,424	-	163,424
Long-term liabilities (note 6):			
Portion due within one year:			
Early retirement	106,035	-	106,035
Bonds payable	615,000	-	615,000
Compensated absences	187,201	-	187,201
Portion due after one year:			
Early retirement	219,164	-	219,164
Bonds payable	6,115,000	-	6,115,000
Total liabilities	19,895,827	135,615	20,031,442

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2006

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 5,963,214	\$ 131,359	\$ 6,094,573
Restricted for:			
Other special revenue purposes	553,130	-	553,130
Debt service	881,368	-	881,368
Capital projects	1,598,734	-	1,598,734
Unrestricted	<u>1,712,593</u>	<u>638,186</u>	<u>2,350,779</u>
Total net assets	<u>\$ 10,709,039</u>	<u>\$ 769,545</u>	<u>\$ 11,478,584</u>

See notes to financial statements.

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
		Services		
Governmental Activities:				
Instruction:				
Regular instruction	\$ 15,944,639	\$ 637,288	\$ 2,059,231	\$ -
Special instruction	4,800,235	242,610	1,124,786	-
Other instruction	3,479,114	879,844	117,549	-
	<u>24,223,988</u>	<u>1,759,742</u>	<u>3,301,566</u>	<u>-</u>
Support services:				
Student services	1,489,444	-	651,515	-
Instructional staff services	1,400,493	-	298,911	-
Administration services	3,380,097	-	-	-
Operation and maintenance of plant services	3,446,864	-	48,210	-
Transportation services	1,152,823	-	9,580	-
	<u>10,869,721</u>	<u>-</u>	<u>1,008,216</u>	<u>-</u>
Non-instructional programs	<u>54,216</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	278,646	-	500	68,584
Long-term debt interest and fiscal charges	305,776	-	-	-
AEA flowthrough	1,395,915	-	1,395,915	-
Depreciation (unallocated) *	894,303	-	-	-
	<u>2,874,640</u>	<u>-</u>	<u>1,396,415</u>	<u>68,584</u>
Total governmental activities	<u>38,022,565</u>	<u>1,759,742</u>	<u>5,706,197</u>	<u>68,584</u>

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (13,248,120)	\$ -	\$ (13,248,120)
(3,432,839)	-	(3,432,839)
(2,481,721)	-	(2,481,721)
<u>(19,162,680)</u>	<u>-</u>	<u>(19,162,680)</u>
(837,929)	-	(837,929)
(1,101,582)	-	(1,101,582)
(3,380,097)	-	(3,380,097)
(3,398,654)	-	(3,398,654)
(1,143,243)	-	(1,143,243)
<u>(9,861,505)</u>	<u>-</u>	<u>(9,861,505)</u>
(54,216)	-	(54,216)
(209,562)	-	(209,562)
(305,776)	-	(305,776)
-	-	-
(894,303)	-	(894,303)
<u>(1,409,641)</u>	<u>-</u>	<u>(1,409,641)</u>
(30,488,042)	-	(30,488,042)

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Functions/Programs	Expenses	Charges for Services	Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Business-Type Activities:				
Support services:				
Food service operations	\$ 72,377	\$ -	\$ -	\$ -
Other programs	12,572	-	-	-
	<u>84,949</u>	<u>-</u>	<u>-</u>	<u>-</u>
Non-instructional programs:				
Food service operations	1,624,468	679,851	1,102,426	-
Other programs	272,938	459,279	16,899	-
	<u>1,897,406</u>	<u>1,139,130</u>	<u>1,119,325</u>	<u>-</u>
Facilities acquisition and construction:				
Other programs	109,717	-	-	-
	<u>109,717</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>2,092,072</u>	<u>1,139,130</u>	<u>1,119,325</u>	<u>-</u>
Total	<u>\$ 40,114,637</u>	<u>\$ 2,898,872</u>	<u>\$ 6,825,522</u>	<u>\$ 68,584</u>

General Revenues:

Property tax levied for:

 General purposes
 Local option sales and services tax
 Unrestricted state grants
 Unrestricted investment earnings
 Other

Total general revenues

Change in net assets

Net assets beginning of year

Net assets end of year

* = This amount excludes the depreciation that is included
 in the direct expense of the various programs.

See notes to financial statements.

<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
\$ -	\$ (72,377)	\$ (72,377)
-	(12,572)	(12,572)
-	(84,949)	(84,949)
	157,809	157,809
-	203,240	203,240
-	361,049	361,049
-	(109,717)	(109,717)
-	166,383	166,383
(30,488,042)	166,383	(30,321,659)
8,503,757	-	8,503,757
2,670,924	-	2,670,924
20,561,779	-	20,561,779
273,858	12,721	286,579
92,393	-	92,393
32,102,711	12,721	32,115,432
1,614,669	179,104	1,793,773
9,094,370	590,441	9,684,811
\$ <u>10,709,039</u>	\$ <u>769,545</u>	\$ <u>11,478,584</u>

OTTUMWA COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	General	Capital Projects	Governmental Funds	Governmental Funds
Assets				
Cash and pooled investments	\$ 5,826,126	\$ 1,483,555	\$ 1,504,527	\$ 8,814,208
Receivables:				
Property tax:				
Current year	200,577	-	11,451	212,028
Succeeding year	6,731,000	-	394,000	7,125,000
Interfund receivable (note 3)	10,644	-	-	10,644
Accrued interest	27,540	-	-	27,540
Due from other governments	573,721	445,580	10,644	1,029,945
Inventories	80,566	-	-	80,566
Total assets	\$ 13,450,174	\$ 1,929,135	\$ 1,920,622	\$ 17,299,931
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 741,660	\$ 330,401	\$ 39,717	\$ 1,111,778
Salaries and benefits payable	3,889,218	-	1,609	3,890,827
Interfund payable (note 3)	-	-	10,644	10,644
Deferred revenue:				
Succeeding year property tax	6,731,000	-	394,000	7,125,000
Other	163,424	-	-	163,424
Total liabilities	11,525,302	330,401	445,970	12,301,673
Fund balance:				
Reserved for:				
Inventories	80,566	-	-	80,566
Educational trust	51,576	-	-	51,576
State grants	205,791	-	-	205,791
Debt service	-	-	907,038	907,038
Unreserved:				
Reported in nonmajor Special Revenue Funds	-	-	567,614	567,614
Undesignated	1,586,939	1,598,734	-	3,185,673
Total fund balances	1,924,872	1,598,734	1,474,652	4,998,258
Total liabilities and fund balances	\$ 13,450,174	\$ 1,929,135	\$ 1,920,622	\$ 17,299,931

See notes to financial statements.

OTTUMWA COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 June 30, 2006

Total fund balances of governmental funds	\$ 4,998,258
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	12,693,214
The Internal Service fund balance is incorporated into governmental activity net assets due to the integral nature of the services performed.	285,637
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(25,670)
Long-term liabilities, including bonds payable, early retirement and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(7,242,400)</u>
Net assets of governmental activities	<u>\$ 10,709,039</u>
See notes to financial statements.	

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	General	Capital Projects	Governmental Funds	Total
Revenues:				
Local sources:				
Local tax	\$ 8,034,806	\$ 2,670,924	\$ 459,249	\$ 11,164,979
Tuition	703,647	-	-	703,647
Other	519,887	37,268	939,616	1,496,771
Intermediate sources	19,195	-	-	19,195
State sources	23,539,622	-	-	23,539,622
Federal sources	2,614,093	-	68,584	2,682,677
Total revenues	35,431,250	2,708,192	1,467,449	39,606,891
Expenditures:				
Current:				
Instruction	23,354,072	-	1,039,014	24,393,086
Support services:				
Student services	1,489,444	-	-	1,489,444
Instructional staff services	1,394,930	-	3,593	1,398,523
Administration services	3,376,514	-	18,072	3,394,586
Operation and maintenance of plant services	3,272,256	26,475	213,954	3,512,685
Transportation services	1,102,068	-	46,312	1,148,380
	10,635,212	26,475	281,931	10,943,618
Non-instructional programs	47,298	-	6,918	54,216
Other expenditures:				
Facilities acquisition	-	923,386	68,584	991,970
Long term debt:				
Principal	-	-	550,000	550,000
Interest and fiscal charges	-	-	339,318	339,318
AEA flowthrough	1,395,915	-	-	1,395,915
	1,395,915	923,386	957,902	3,277,203
Total expenditures	35,432,497	949,861	2,285,765	38,668,123
Excess (deficiency) of revenues over (under) expenditures	(1,247)	1,758,331	(818,316)	938,768

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	<u>General</u>	<u>Capital Projects</u>	<u>Governmental Funds</u>	<u>Total</u>
Other financing sources (uses):				
Compensation for loss of capital assets	\$ 30,343	\$ -	\$ -	\$ 30,343
Interfund transfers in (note 4)	-	-	862,000	862,000
Interfund transfers out (note 4)	-	(862,000)	-	(862,000)
Total other financing sources (uses)	<u>30,343</u>	<u>(862,000)</u>	<u>862,000</u>	<u>30,343</u>
Net change in fund balances	29,096	896,331	43,684	969,111
Fund balances beginning of year	<u>1,895,776</u>	<u>702,403</u>	<u>1,430,968</u>	<u>4,029,147</u>
Fund balances end of year	<u>\$ 1,924,872</u>	<u>\$ 1,598,734</u>	<u>\$ 1,474,652</u>	<u>\$ 4,998,258</u>

See notes to financial statements.

OTTUMWA COMMUNITY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

Net change in fund balances - total governmental funds \$ 969,111

Amounts reported for governmental activities in the Statement of Activities
are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Expenditures for capital assets	\$ 763,530	
Depreciation expense	<u>(953,907)</u>	(190,377)

The change in net assets of the Internal Service Fund represents an overcharge for services to governmental activities. Expenses for governmental activities are adjusted to reflect this overcharge. 252,095

Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 550,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 33,542

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 298

Change in net assets of governmental activities \$ 1,614,669

See notes to financial statements.

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

PROPRIETARY FUND

June 30, 2006

	Enterprise Funds	Service Fund
	<u> </u>	<u> </u>
Assets		
Cash and cash equivalents	\$ 669,026	\$ 560,295
Accounts receivable	-	62,070
Inventories	104,775	-
Capital assets, net of accumulated depreciation	<u>131,359</u>	<u>-</u>
Total assets	<u>905,160</u>	<u>622,365</u>
Liabilities		
Accounts payable	14,790	11,728
Salaries and benefits payable	120,825	-
Incurred but not reported claims	<u>-</u>	<u>325,000</u>
Total liabilities	<u>135,615</u>	<u>336,728</u>
Net Assets		
Invested in capital assets	131,359	-
Unrestricted	<u>638,186</u>	<u>285,637</u>
Total net assets	<u>\$ 769,545</u>	<u>\$ 285,637</u>

See notes to financial statements.

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUND
 Year Ended June 30, 2006

	Enterprise Funds	Service Fund
Operating revenues:		
Local sources:		
Charges for services	\$ 1,139,130	\$ 2,489,726
Operating expenses:		
Support services:		
Salaries	60,629	-
Benefits	8,124	-
Purchased services	12,572	-
Supplies	3,624	-
	<u>84,949</u>	<u>-</u>
Non-instructional programs:		
Salaries	634,802	-
Benefits	108,829	-
Purchased services	47,060	-
Supplies	1,073,345	2,254,211
Depreciation	33,370	-
	<u>1,897,406</u>	<u>2,254,211</u>
Facilities acquisition and construction:		
Purchased services	44,089	-
Supplies	65,628	-
	<u>109,717</u>	<u>-</u>
Total operating expenses	<u>2,092,072</u>	<u>2,254,211</u>
Operating income (loss)	<u>(952,942)</u>	<u>235,515</u>
Non-operating revenues:		
Interest on investments	12,721	16,580
State sources	20,821	-
Federal sources	1,098,504	-
Total non-operating revenues	<u>1,132,046</u>	<u>16,580</u>
Change in net assets	179,104	252,095
Net assets beginning of year	<u>590,441</u>	<u>33,542</u>
Net assets end of year	<u>\$ 769,545</u>	<u>\$ 285,637</u>

See notes to financial statements.

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2006

	Enterprise Funds	Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 655,531	\$ -
Cash received from miscellaneous operating activities	483,599	2,462,108
Cash payments to employees for services	(803,390)	-
Cash payments to suppliers for goods or services	<u>(1,051,985)</u>	<u>(2,208,190)</u>
Net cash provided by (used in) operating activities	<u>(716,245)</u>	<u>253,918</u>
Cash flows from non-capital financing activities:		
State grants received	20,821	-
Federal grants received	<u>969,306</u>	<u>-</u>
Net cash provided by non-capital financing activities	<u>990,127</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	<u>(78,424)</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	<u>12,721</u>	<u>16,580</u>
Net increase in cash and cash equivalents	208,179	270,498
Cash and cash equivalents beginning of year	<u>460,847</u>	<u>289,797</u>
Cash and cash equivalents end of year	<u>\$ 669,026</u>	<u>\$ 560,295</u>

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2006

	Enterprise Funds	Service Fund
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (952,942)	\$ 235,515
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	33,370	-
Commodities used	129,198	-
(Increase) in accounts receivable	-	(27,618)
Decrease in inventories	82,769	-
Increase in accounts payable	(17,634)	11,021
(Decrease) in salaries and benefits payable	8,994	-
Increase in incurred but not reported claims	-	35,000
	<u> -</u>	<u> 35,000</u>
Net cash provided by (used in) operating activities	\$ <u>(716,245)</u>	\$ <u>253,918</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the District received \$129,198 of federal commodities.

See notes to financial statements.

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2006

	<u>Trust</u>
	<u>Scholarship</u>
Assets:	
Cash and pooled investments	\$ <u>75,758</u>
Liabilities:	
None	<u>-</u>
Net assets:	
Reserved for scholarships	\$ <u><u>75,758</u></u>

See notes to financial statements.

OTTUMWA COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2006

	<u>Trust</u>
	<u>Scholarship</u>
Additions:	
Local sources:	
Gifts and contributions	\$ 2,761
Interest	<u>1,455</u>
Total additions	<u>4,216</u>
Deductions:	
Support services:	
Scholarships awarded	<u>2,050</u>
Non-instructional programs:	
Community services	<u>326</u>
Total deductions	<u>2,376</u>
Change in net assets	1,840
Net assets beginning of year	<u>73,918</u>
Net assets end of year	\$ <u><u>75,758</u></u>

See notes to financial statements.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies

Ottumwa Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Ottumwa, Iowa, and agricultural territory in Wapello County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Ottumwa Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. Ottumwa Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Wapello County Assessor's Conference Board.

B. Basis of Presentation

District-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports three enterprise funds: the School Nutrition Fund, used to account for the food service operations of the District, the Youth Care, used to account for daycare operations, and the Career Academy House, used to account for the student-built house activities. The District also reports one internal service fund: the self-funded insurance fund, used to account for the District's self-funded health and dental insurance activity.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements with restrictions of income earned to be used to benefit individuals through scholarship awards.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

The District-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

All proprietary funds of the District apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the statement of net assets and the balance sheet:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust, which is valued at amortized cost, and non-negotiable certificates of deposit, which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in Governmental Funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Current year property tax receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

The property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2005.

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Capital Assets – Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the District-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 4,000
Buildings	4,000
Improvements other than buildings	4,000
Furniture and equipment:	
School Nutrition Fund Equipment	500
Other furniture and equipment	4,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Buildings	20-50 years
Improvements other than buildings	15 years
Furniture and equipment	5-12 years

Salaries and Benefits Payable – Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, the succeeding year property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied, and unspent federal grant proceeds.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the District-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities – In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Invested in capital assets, net of related debt – In the District-wide Statement of Net Assets, the net asset balance invested in capital assets, net of related debt is equal to the capital assets balances, including restricted capital assets, less accumulated depreciation and the outstanding balances of any bonds, notes, or other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets – In the District-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements in the support services function exceeded the amount budgeted.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 2. Cash and Pooled Investments (continued)

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	\$ <u>5,036,038</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit Risk – The investment in the Iowa Schools Joint Investment Trust was rated Aaa by Moody's Investors Service.

Note 3. Interfund Receivables/Payables

The detail of interfund receivables and payables at June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Physical Plant and Equipment Levy	\$ <u>10,644</u>

All amounts arise due to pooled cash balances.

Note 4. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	\$ <u>862,000</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 5. Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 320,904	\$ -	\$ -	\$ 320,904
Construction in progress	379,042	149,447	379,042	149,447
Total capital assets not being depreciated	<u>699,946</u>	<u>149,447</u>	<u>379,042</u>	<u>470,351</u>
Capital assets being depreciated:				
Buildings	26,530,850	646,429	-	27,177,279
Improvements other than buildings	62,730	296,489	-	359,219
Furniture and equipment	658,678	50,207	-	708,885
Total capital assets being depreciated	<u>27,252,258</u>	<u>993,125</u>	<u>-</u>	<u>28,245,383</u>
Less accumulated depreciation for:				
Buildings	14,465,222	891,039	-	15,356,261
Improvements other than buildings	4,182	28,616	-	32,798
Furniture and equipment	599,209	34,252	-	633,461
Total accumulated depreciation	<u>15,068,613</u>	<u>953,907</u>	<u>-</u>	<u>16,022,520</u>
Total capital assets being depreciated, net	<u>12,183,645</u>	<u>39,218</u>	<u>-</u>	<u>12,222,863</u>
Governmental activities capital assets, net	<u>\$ 12,883,591</u>	<u>\$ 188,665</u>	<u>\$ 379,042</u>	<u>\$ 12,693,214</u>

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 5. Capital Assets (continued)

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Furniture and equipment	\$ 370,306	\$ 78,424	\$ 13,186	\$ 435,544
Less accumulated depreciation	284,001	33,370	13,186	304,185
Business-type activities capital assets, net	<u>\$ 86,305</u>	<u>\$ 45,054</u>	<u>\$ -</u>	<u>\$ 131,359</u>

Depreciation expense was charged by the District to the following functions:

Governmental activities:

Instruction:

Regular	\$ 6,906
Other	23,409

Support services:

Administration	13,580
Operation and maintenance of plant services	11,266
Transportation	4,443
	<u>59,604</u>
Unallocated depreciation	<u>894,303</u>

Total governmental activities depreciation expense	<u>\$ 953,907</u>
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Business-type activities:

Food service operations	<u>\$ 33,370</u>
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OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 6. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Early Retirement	General Obligation Bonds	Compensated Absences	Total
Balance beginning of year	\$ 337,194	\$ 7,280,000	\$ 175,504	\$ 7,792,698
Additions	116,081	-	187,201	303,282
Reductions	128,076	550,000	175,504	853,580
Balance end of year	<u>\$ 325,199</u>	<u>\$ 6,730,000</u>	<u>\$ 187,201</u>	<u>\$ 7,242,400</u>
Due within one year	<u>\$ 106,035</u>	<u>\$ 615,000</u>	<u>\$ 187,201</u>	<u>\$ 908,236</u>

Early Retirement

The District offers a voluntary early retirement plan to its employees. Eligible certified employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible certified employee is equal to \$3,500 annual payments for up to five years, until the employee reaches age 65, or until the employee becomes eligible for Medicare, whichever comes first. Eligible non-certified employees must be at least age fifty-five and have been employed by the District for seven to ten years (depending on their employee group) or more. The early retirement incentive for non-certified employees is employee single health insurance for the next three years or until the retiree qualifies for Medicare or reaches age 65.

At June 30, 2006, the District had obligations to 35 participants with a total liability of \$325,199. Early retirement benefits paid during the year ended June 30, 2006, totaled \$112,283. The long-term portion of early retirement is recorded as a long-term liability of the Governmental Activities in the District-wide financial statements.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 6. Long-Term Liabilities (continued)

Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Issue dated September 1, 1998				Total
	Interest Rates	Principal	Interest		
2007	4.500 %	\$ 615,000	\$ 308,043	\$	923,043
2008	4.500	635,000	280,367		915,367
2009	4.500	680,000	251,793		931,793
2010	4.500	710,000	221,193		931,193
2011	4.600	745,000	189,242		934,242
2012	4.600	795,000	154,973		949,973
2013	4.600	810,000	118,402		928,402
2014	4.625	850,000	81,143		931,143
2015	4.700	890,000	41,830		931,830
		<u>\$ 6,730,000</u>	<u>\$ 1,646,986</u>	<u>\$</u>	<u>8,376,986</u>

During the year ended June 30, 2006, the District retired \$550,000 in general obligation bonds.

Note 7. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$1,436,007, \$1,372,935, and \$1,274,886 respectively, equal to the required contributions for each year.

Note 8. Risk Management

Self-Funded Health and Dental Insurance

Health – The District has a self-funded insurance plan for employee medical coverage. The District contributes to the self-insurance plan an amount equal to 125% of regular insurance coverage plus an amount for terminal funding. The fund reinsures for stop-loss insurance for individual claims in excess of \$40,000 per year and aggregate total claims of 125% of expected claims. A third party administrator is paid a fee to process the claims.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 8. Risk Management (continued)

Self-Funded Health and Dental Insurance (continued)

Dental – The District has a self-funded dental insurance plan for employee dental coverage. District employees contribute to the insurance plan and the plan reimburses the insurance carrier monthly for the claims paid plus pays an administrative fee. Professional services through the plan for the participants are limited to a combined maximum payment of \$750 per member per benefit period.

Payments are made to the plans based on actuarial estimates of amounts needed to pay prior and current year claims and to establish a reserve for incurred but unpaid claims. The reserve for the Self-Funded Health and Self-Funded Dental plans were \$285,637 at June 30, 2006 and is recorded in the Internal Service Fund. The incurred but not reported claims liability of \$325,000 is reported as a liability of the Internal Service Fund at June 30, 2006.

Ottumwa Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$1,395,915 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 10. Construction Commitments

The District entered into various contracts totaling \$767,050 for various projects. As of June 30, 2006, costs of \$128,393 had been incurred against the contracts. The balance of \$638,657 remaining at June 30, 2006 will be paid as work on the projects progresses.

Required Supplementary Information

OTTUMWA COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances –
Budget and Actual – All Governmental Funds
and Proprietary Fund
Required Supplementary Information
Year Ended June 30, 2006

	Governmental Funds - Actual	Proprietary Fund - Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
REVENUES:						
Local sources	\$ 13,365,397	\$ 1,151,851	\$ 14,517,248	\$ 14,272,068	\$ 14,272,068	\$ 245,180
Intermediate sources	19,195	-	19,195	10,000	10,000	9,195
State sources	23,539,622	20,821	23,560,443	23,750,269	23,750,269	(189,826)
Federal sources	2,682,677	1,098,504	3,781,181	4,090,000	4,090,000	(308,819)
Total revenues	39,606,891	2,271,176	41,878,067	42,122,337	42,122,337	(244,270)
EXPENDITURES/EXPENSES:						
Instruction	24,393,086	-	24,393,086	25,475,000	25,475,000	1,081,914
Support services	10,943,618	84,949	11,028,567	10,470,000	10,955,000	(73,567)
Non-instructional programs	54,216	1,897,406	1,951,622	2,080,000	2,080,000	128,378
Other expenditures	3,277,203	109,717	3,386,920	4,104,663	4,004,663	617,743
Total expenditures/expenses	38,668,123	2,092,072	40,760,195	42,129,663	42,514,663	1,754,468
Excess (deficiency) of revenues over (under) expenditures/ expenses	938,768	179,104	1,117,872	(7,326)	(392,326)	1,510,198
Other financing sources, net	30,343	-	30,343	-	-	30,343
Excess (deficiency) of revenues and other financing sources over (under) expenditures/ expenses	969,111	179,104	1,148,215	(7,326)	(392,326)	1,540,541
Balance beginning of year	4,029,147	590,441	4,619,588	3,601,700	3,601,700	1,017,888
Balance end of year	\$ 4,998,258	\$ 769,545	\$ 5,767,803	\$ 3,594,374	\$ 3,209,374	\$ 2,558,429

See accompanying independent auditor's report.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except internal service, private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on an accrual basis. Encumbrances are not recognized on the accrual basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures or expenses by \$385,000.

During the year ended June 30, 2006, expenditures/expenses in the support services function exceeded the amount budgeted.

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Other Supplementary Information

OTTUMWA COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2006

	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	Total
Assets					
Cash and pooled investments	\$ 8,769	\$ 588,720	\$ -	\$ 907,038	\$ 1,504,527
Receivables:					
Property tax:					
Current year	11,451	-	-	-	11,451
Succeeding year	394,000	-	-	-	394,000
Due from other governments	-	-	10,644	-	10,644
	<u>414,220</u>	<u>588,720</u>	<u>10,644</u>	<u>907,038</u>	<u>1,920,622</u>
Total assets	\$ <u>414,220</u>	\$ <u>588,720</u>	\$ <u>10,644</u>	\$ <u>907,038</u>	\$ <u>1,920,622</u>
Liabilities and Fund Equity					
Liabilities:					
Accounts payable	\$ 5,736	\$ 33,981	\$ -	\$ -	\$ 39,717
Salaries and benefits payable	-	1,609	-	-	1,609
Interfund payable	-	-	10,644	-	10,644
Deferred revenue:					
Succeeding year property tax	394,000	-	-	-	394,000
Total liabilities	<u>399,736</u>	<u>35,590</u>	<u>10,644</u>	<u>-</u>	<u>445,970</u>
Fund equity:					
Fund balances:					
Reserved for:					
Debt service	-	-	-	907,038	907,038
Unreserved:					
Undesignated	14,484	553,130	-	-	567,614
Total fund equity	<u>14,484</u>	<u>553,130</u>	<u>-</u>	<u>907,038</u>	<u>1,474,652</u>
	<u>414,220</u>	<u>588,720</u>	<u>10,644</u>	<u>907,038</u>	<u>1,920,622</u>
Total liabilities and fund equity	\$ <u>414,220</u>	\$ <u>588,720</u>	\$ <u>10,644</u>	\$ <u>907,038</u>	\$ <u>1,920,622</u>

See accompanying independent auditor's report.

OTTUMWA COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	Total
Revenues:					
Local sources:					
Local tax	\$ 459,249	\$ -	\$ -	\$ -	459,249
Other	-	897,584	-	42,032	939,616
Federal sources	-	-	68,584	-	68,584
Total revenues	459,249	897,584	68,584	42,032	1,467,449
Expenditures:					
Current:					
Instruction	223,513	815,501	-	-	1,039,014
Support services:					
Instructional staff services	-	3,593	-	-	3,593
Administration services	18,072	-	-	-	18,072
Operation and maintenance of plant services	213,954	-	-	-	213,954
Transportation services	-	46,312	-	-	46,312
Non instructional programs	6,918	-	-	-	6,918
Other expenditures:					
Facilities acquisition	-	-	68,584	-	68,584
Long term debt:					
Principal	-	-	-	550,000	550,000
Interest and fiscal charges	-	-	-	339,318	339,318
Total expenditures	462,457	865,406	68,584	889,318	2,285,765
Excess (deficiency) of revenues over (under) expenditures	(3,208)	32,178	-	(847,286)	(818,316)
Other financing sources (uses):					
Interfund transfers in	-	-	-	862,000	862,000

OTTUMWA COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	Total
Excess (deficiency) of revenues over (under) expenditures and other financing uses	\$ (3,208)	\$ 32,178	\$ -	\$ 14,714	\$ 43,684
Fund balances beginning of year	17,692	520,952	-	892,324	1,430,968
Fund balances end of year	<u>\$ 14,484</u>	<u>\$ 553,130</u>	<u>\$ -</u>	<u>\$ 907,038</u>	<u>\$ 1,474,652</u>

See accompanying independent auditor's report.

OTTUMWA COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF NET ASSETS

ENTERPRISE FUNDS

June 30, 2006

	School Nutrition	Youth Care	Career Academy House	Total
Assets				
Cash and pooled investments	\$ 446,920	\$ 51,893	\$ 170,213	\$ 669,026
Inventories	83,194	-	21,581	104,775
Capital assets, net of accumulated depreciation	131,359	-	-	131,359
Total assets	<u>661,473</u>	<u>51,893</u>	<u>191,794</u>	<u>905,160</u>
Liabilities				
Accounts payable	6,391	5,207	3,192	14,790
Salaries and benefits payable	94,436	26,389	-	120,825
Total liabilities	<u>100,827</u>	<u>31,596</u>	<u>3,192</u>	<u>135,615</u>
Net Assets				
Invested in capital assets, net of related debt	131,359	-	-	131,359
Unrestricted	429,287	20,297	188,602	638,186
Total net assets	<u>\$ 560,646</u>	<u>\$ 20,297</u>	<u>\$ 188,602</u>	<u>\$ 769,545</u>

See accompanying independent auditor's report.

OTTUMWA COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

ENTERPRISE FUNDS

Year Ended June 30, 2006

	School Nutrition	Youth Care	Academy House	Total
Operating revenues:				
Local sources:				
Charges for services	\$ 679,851	\$ 174,372	\$ 284,907	\$ 1,139,130
Operating expenses:				
Support services:				
Salaries	60,629	-	-	60,629
Benefits	8,124	-	-	8,124
Purchased services	-	12,572	-	12,572
Supplies	3,624	-	-	3,624
	72,377	12,572	-	84,949
Non-instructional programs:				
Salaries	523,324	111,478	-	634,802
Benefits	96,091	12,738	-	108,829
Purchased services	33,570	13,490	-	47,060
Supplies	938,113	22,049	113,183	1,073,345
Depreciation	33,370	-	-	33,370
	1,624,468	159,755	113,183	1,897,406
Facilities acquisition and construction:				
Purchased services	-	-	44,089	44,089
Supplies	-	-	65,628	65,628
	-	-	109,717	109,717
Total operating expenses	1,696,845	172,327	222,900	2,092,072
Operating income (loss)	(1,016,994)	2,045	62,007	(952,942)
Non-operating revenues:				
Interest on investments	11,733	988	-	12,721
State sources	20,821	-	-	20,821
Federal sources	1,081,605	16,899	-	1,098,504
Total non-operating revenues	1,114,159	17,887	-	1,132,046
Change in net assets	97,165	19,932	62,007	179,104
Net assets beginning of year, as restated	463,481	365	126,595	590,441
Net asset end of year	\$ 560,646	\$ 20,297	\$ 188,602	\$ 769,545

See accompanying independent auditor's report.

OTTUMWA COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF CASH FLOWS

ENTERPRISE FUNDS

Year Ended June 30, 2006

	School Nutrition	Youth Care	Academy House	Total
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 655,531	\$ -	\$ -	\$ 655,531
Cash received from miscellaneous operating activities	24,320	174,372	284,907	483,599
Cash payments to employees for services	(683,439)	(119,951)	-	(803,390)
Cash payments to suppliers for goods or services	(877,580)	(46,299)	(128,106)	(1,051,985)
Net cash provided by (used in) operating activities	(881,168)	8,122	156,801	(716,245)
Cash flows from non-capital financing activities:				
State grants received	20,821	-	-	20,821
Federal grants received	952,407	16,899	-	969,306
Net cash provided by non-capital financing activities	973,228	16,899	-	990,127
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(78,424)	-	-	(78,424)
Cash flows from investing activities:				
Interest on investments	11,733	988	-	12,721
Net increase in cash and cash equivalents	25,369	26,009	156,801	208,179
Cash and cash equivalents at beginning of year	421,551	25,884	13,412	460,847
Cash and cash equivalents at end of year	\$ 446,920	\$ 51,893	\$ 170,213	\$ 669,026

OTTUMWA COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF CASH FLOWS
ENTERPRISE FUNDS
Year Ended June 30, 2006

	<u>School Nutrition</u>	<u>Youth Care</u>	<u>Academy House</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (1,016,994)	2,045	\$ 62,007	\$ (952,942)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	33,370	-	-	33,370
Commodities used	129,198	-	-	129,198
(Increase) decrease in inventories	(8,833)	-	91,602	82,769
Increase (decrease) in accounts payable	(22,638)	1,812	3,192	(17,634)
Increase in salaries and benefits payable	4,729	4,265	-	8,994
Net cash provided by (used in) operating activities	<u>\$ (881,168)</u>	<u>\$ 8,122</u>	<u>\$ 156,801</u>	<u>\$ (716,245)</u>

See accompanying independent auditor's report.

OTTUMWA COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
District-Wide:				
Interest	\$ 49,453	\$ 17,741	\$ 19,911	\$ 47,283
Foreign Language	3,863	-	3,863	-
Musical Fees	38,539	4,471	2,552	40,458
Administration	13,961	-	650	13,311
Trips	194,515	361,923	333,840	222,598
Other	24,871	24,180	36,395	12,656
Agassiz	5,347	5,520	5,473	5,394
Douma	9,158	23,003	22,947	9,214
Eisenhower	10,298	25,649	27,580	8,367
Horace Mann	11,046	28,347	37,900	1,493
James Team	(57)	12,133	11,276	800
Pickwick	23,208	23,149	19,356	27,001
Wildwood	4,970	11,266	7,990	8,246
Wilson Pop Fund	5,828	3,138	4,923	4,043
Evans	38,846	51,810	43,264	47,392
High School	83,879	367,946	349,357	102,468
Alternative High School	3,227	1,379	2,200	2,406
Less: Intrafund Transfers	-	(64,071)	(64,071)	-
Total	\$ 520,952	\$ 897,584	\$ 865,406	\$ 553,130

See accompanying independent auditor's report.

OTTUMWA COMMUNITY SCHOOL DISTRICT

SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

	Years Ended June 30,			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 11,164,979	\$ 10,981,439	\$ 9,154,683	\$ 9,125,960
Tuition	703,647	674,413	656,652	64,882
Other	1,496,771	1,468,688	1,947,936	2,023,987
Intermediate sources	19,195	44,665	7,193	-
State sources	23,539,622	22,598,252	22,286,299	22,239,902
Federal sources	2,682,677	3,321,783	3,349,311	2,428,015
Total revenues	<u>\$ 39,606,891</u>	<u>\$ 39,089,240</u>	<u>\$ 37,402,074</u>	<u>\$ 35,882,746</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 16,093,466	\$ 15,283,242	\$ 14,784,116	\$ 14,209,485
Special instruction	4,820,506	4,851,332	5,751,077	5,437,563
Other instruction	3,479,114	3,708,731	2,479,510	2,470,826
Support services:				
Student services	1,489,444	1,576,887	1,180,904	933,826
Instructional staff services	1,398,523	1,163,541	952,636	948,814
Administration services	3,394,586	3,052,393	3,010,152	2,975,424
Operation and maintenance of plant services	3,512,685	3,240,112	3,381,279	3,401,257
Transportation services	1,148,380	1,032,484	987,835	938,906
Non-instructional programs	54,216	18,886	96,537	91,571
Other expenditures:				
Facilities acquisition	991,970	1,187,999	1,159,943	1,990,217
Long-term debt:				
Principal	550,000	525,000	500,000	475,000
Interest and fiscal charges	339,318	364,242	763,052	479,000
AEA flowthrough	1,395,915	1,341,364	1,345,454	1,393,542
Total expenditures	<u>\$ 38,668,123</u>	<u>\$ 37,346,213</u>	<u>\$ 36,392,495</u>	<u>\$ 35,745,431</u>

See accompanying independent auditor's report.

OTTUMWA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2006

Grantor / Program	Number	Number	Expenditures
Indirect:			
U. S. Department of Agriculture:			
Iowa Department of Education:			
Food Donation (non-cash)	10.550	FY 06	\$ <u>129,198</u>
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY 06	102,712
National School Lunch Program	10.555	FY 06	849,675
Summer Food Service Program for Children	10.556	FY 06	<u>16,899</u>
			<u>969,286</u>
			<u>1,098,484</u>
U. S. Department of Education:			
Iowa Department of Education:			
Migrant Education - State Grant Program	84.011	FY 05	8,842
Migrant Education - State Grant Program	84.011	FY 06	<u>116,688</u>
			<u>125,530</u>
Title 1 Grants to Local Educational Agencies	84.010	5049-GC-06	74,354
Title 1 Grants to Local Educational Agencies	84.010	5049-G-06	<u>879,978</u>
			<u>954,332</u>
Grants for State Assessments and Related Activities	84.369	FY 06	<u>27,888</u>
State Grants for Innovative Programs	84.298	FY 06	<u>18,054</u>
Improving Teacher Quality State Grants	84.367	FY 05	99,918
Improving Teacher Quality State Grants	84.367	FY 06	<u>200,481</u>
			<u>300,399</u>
Safe and Drug-Free Schools and Communities			
- State Grants	84.186	FY 06	<u>40,505</u>
Tech-Prep Education	84.243	FY 06	<u>82,002</u>
Fund for the Improvement of Education	84.215	FY 06	<u>69,152</u>
Reading First State Grants	84.357	FY 06	<u>198,546</u>

OTTUMWA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2006

Grantor / Program	Number	Number	Expenditures
Indirect (continued):			
U. S. Department of Education (continued):			
Iowa Department of Education (continued):			
Education for Homeless Children and Youth	84.196	FY 06	\$ <u>12,305</u>
Comprehensive School Reform Demonstration	84.332	FY 05	<u>11,783</u>
Southern Prairie Area Education Agency:			
Special Education - Grants to States	84.027	FY 06	<u>249,033</u>
Education Technology - State Grant	84.318	FY 06	<u>29,576</u>
Iowa Department of Vocational Rehabilitation:			
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	FY 06	<u>17,858</u>
			<u>2,136,963</u>
U. S. Department of Health and Human Services:			
Iowa Department of Human Services:			
Medical Assistance Program	93.778	FY 06	<u>16,380</u>
Promoting Safe and Stable Families	93.556	FY 06	<u>31,277</u>
Iowa Department of Vocational Rehabilitation:			
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	FY 06	<u>118,775</u>
			<u>166,432</u>
Total			\$ <u><u>3,401,879</u></u>

Basis of Presentation –

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Ottumwa Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Education of
Ottumwa Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Ottumwa Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 27, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ottumwa Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no material weaknesses during the course of our audit.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ottumwa Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about Ottumwa Community School District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Ottumwa Community School District and other parties to whom Ottumwa Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Ottumwa Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Oskaloosa, Iowa
September 27, 2006

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

To the Board of Education of
Ottumwa Community School District:

Compliance

We have audited the compliance of Ottumwa Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Ottumwa Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Ottumwa Community School District's management. Our responsibility is to express an opinion on Ottumwa Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U. S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Ottumwa Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Ottumwa Community School District's compliance with those requirements.

In our opinion, Ottumwa Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Ottumwa Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Ottumwa Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Ottumwa Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no material weaknesses during the course of our audit.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Ottumwa Community School District and other parties to whom Ottumwa Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Oskaloosa, Iowa
September 27, 2006

OTTUMWA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2006

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) No material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.010 – Title I Grants to Local Educational Agencies
 - Clustered programs:
 - CFDA Number 10.553 – School Breakfast Program
 - CFDA Number 10.555 – National School Lunch Program
 - CFDA Number 10.559 – Summer Food Service Program for Children
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Ottumwa Community School District qualified as a low-risk auditee.

OTTUMWA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2006

Part II: Findings Related to the General Purpose Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

No matters were reported.

OTTUMWA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2006

Part III: Findings and Questioned Costs for Federal Awards

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

No matters were reported.

OTTUMWA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2006

Part IV: Other Findings Related to Statutory Reporting:

- IV-A-06 Certified Budget – Expenditures/expenses for the year ended June 30, 2006, exceeded the amount budgeted in the support services function.

Recommendation – The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures/expenses were allowed to exceed the budget.

Response – This situation resulted from coding changes mandated by the State of Iowa at a date too late to amend the budget. We will amend our budget before expenditures/expenses exceed the budget as circumstances allow in the future.

Conclusion – Response accepted.

- IV-B-06 Questionable Expenditures – No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

- IV-C-06 Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- IV-D-06 Business Transactions – Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and <u>Business Connection</u>	Transaction <u>Description</u>	<u>Amount</u>
Larry Northup, Teacher Owner of Ottumwa Coaches, Inc.	Student activity transportation	\$128,774

In accordance with an Attorney General’s opinion dated November 9, 1976, the transaction with Mr. Northup does not appear to represent a conflict of interest.

- IV-E-06 Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- IV-F-06 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.

- IV-G-06 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.

- IV-H-06 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District’s investment policy were noted.

- IV-I-06 Certified Annual Report – The Certified Annual Report was certified to the Iowa Department of Education timely and we noted no significant deficiencies in the amounts reported.

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